

Economic System of Islam

Islam, being a practical Religion has evolved a complete code of life which has successfully fulfilled the requirements of the changing times, Not only in the social but also in the economic field it has given an ideal lead to the people.

Of all the beneficial principles propounded by Islam, none are more useful for humanity at large than those governing income and expenditure. The main sources of income to the Islamic Exchequer are Zakat, Ghanimhh, Jizyah (Tithe) and Kharaj. Zakat which literally means growth and purity is a tax on Muslim Capital owned beyond a certain minimum. Zakat occupies an important place amongst the (Fard) Fundamentals of Islam, the observance of which is binding on Muslims. It is an ordinance (Fard). According to the Holy Prophet of Islam (upon whom be peace), it was to be taken from the rich among them in order to be given to the poor. "This beneficial tax is called Zakat", writes Aghnides, in Muliammadan theories of Finance "because of its giving lead to an increase of prosperity in this world and growth of religious merit in the Next" The Zakat is a tax levied on capital goods" and is due when one is in "possession of full ownership of a productive Nisab(minimum) of property; and its raye is 2 1/2% of the value of possessions other than land". Tithe is a tax levied on the agricultural produce of the land. The Holy Quran enjoins upon the faithful to pay this tax in these words: "And on the day of its harvest give its Right" (VI:142). The Prophet of Islam determines its rate as, "In what has been irrigated with rainwater, one tenth and in what has been watered with buckets or water wheels, one half of the one tenth" (Mishkat). Both these taxes were charged from Muslims only. The Zakat (Growth Tax) is distinguished from the other taxes because it is spent exclusively on poor and needy persons. The Holy Quran states, "The charities are (exclusively) for the poor and needy, and those who collect it and those whose hearts are to be reconciled and to free the captives and debtors and for the cause of God--a duty imposed by God" (IX:16). This tax has throughout the centuries contributed immensely to ameliorating the condition of the poor and has raised their standard of living by bringing them nearer to rich--economically and socially. This ideal tax which is levied on idle as well as productive wealth, discourages the accumulation of wealth and ensures its investment for productive and beneficial purposes. The Prophet once remarked, "Are there those among you who are the guardians of orphans who possess property? Then let them trade with it and not leave it uninvested. So that the Zakat Taxes due on it do not swallow it up" (AI-Tirmizi). The other sources of wealth obtained in abnormal times are Ghanimah, Jizyah and Kharaj. Ghanimah is the wealth obtained during the wars, one-fifth of which was deposited in the Baitul Mal (Public Exchequer). The Jizyah is a tax levied on non-Muslims in lieu of military service which is compulsory for Muslims but not for non-Muslims. The amount of Jizyah is much less than the Zakat which is levied on Muslims only. The non-muslims paying Jizyah were exempt from compulsory

military service in a Muslim State but were entitled to full protection. The Kharaj is the annual levy paid by the conquered countries to the Muslims. The public coffers in which the wealth obtained through all these four sources was deposited was known as Baitul Mal. In the days of the Khulafa-i-Raashidin (Pious Caliphs) when the principles of Islam were strictly followed, the Baitul Mal played a vital role in building up the sound economy of the Muslims. Out of this Public Treasury were financed the needy, destitutes; orphans and other charitable institutions. It was due to this Baitul Mal that there could hardly be found any needy person among the Arabs, who before constituted one of the poorest nations in the world. The faithful adherence to payment of Zakat Tax and the strict maintenance of Baitul Mal during the time of the Holy Prophet of Islam and his four companions led to the prosperity and the raising of the standard of living in Muslim countries. Thus the saying of 'the Prophet of Islam came to be true, "Give Sadaqat freely, as a time is to come when people will offer Sadaqat and there would be none (needy person) to receive them" (Mishkat). In the short period of 30 years, the Arab economy was established on a sound footing. But during the Omayyad regime, the Baitul Mal was misused and instead of utilizing this fund for purely charitable and public purposes, the Caliphs hence-forward used it for furthering their personal interests. Since that time the Baitul Mal, ceased to possess any importance and degenerated into an ordinary Imperial Treasury. Undoubtedly there were a few exceptions and Muslim rulers like Hazrat Omar Bin Abdul Aziz, Sultan Nasiruddin of Delhi and Aurangzeb Alamgir refrained from spending money out of the public treasury. The Waqf (Endowment) has been instrumental in financing and thus ensuring the smooth running of a large number of public and charitable institutions all over the Muslim world, Such institutions include mosques, madrassas (educational institutions) orphanages and hospitals. Large endowments are attached to some of the big public institutions in Muslim countries.

Socialist Principles

The Islamic economy, is to a great extent based on socialist principles which aim at maintaining the equality of man and eliminating too much disparity, between the rich and the poor, Its ideal economic principles have raised the general standard of living and have prevented the exploitation of the poor at the hands of the rich. Islam has struck at the root of the principle of making the rich richer and the poor poorer, which has been followed in the capitalist and imperialist states of the world since time immemorial, The early Caliphate proved the words of the Holy Prophet of Islam that if Muslims faithfully pay their Zakat, a time would come when there would be no needy person to receive the same. The unequal distribution of wealth is the basis of all human conflicts both individual and social. Islam has evolved its economic principles on such lines as to minimise these disparities and eliminate distinctions in the distribution of human fortunes. The

wealthy people are heavily taxed in order to help the poor and this taxation forms one of the cardinal principles of Islam which no true Muslim can violate.

Islam has steered midway between Capitalism and Communism--a mean between two extremes. Capitalism thrives at the cost of society and aims at building up private property. Communism has no place for private enterprise and economy. Islam while recognising one's right to build up private fortunes enjoins upon its followers to voluntarily part with 2 1/2% of their wealth every year for the benefit of the poor. This has greatly contributed to the removal of social inequality among Muslims in the past. It has, thus eliminated the defects of both Capitalism and Communism while retaining most of their virtues. Ensuring equitable and fair distribution of wealth, the Islamic economical system discourages the hoarding of wealth as idle wealth is also taxed 2 1/2% a year. It thus provides an incentive to the investment of capital in commerce and industry which means wider circulation of money, more employment and greater prosperity. Islam thus lays certain obligations(both moral and legal) upon its rich members which reduces the possibility of accumulating fabulous fortunes on their part. The Holy Book condemns hoarders in the strongest language. It says, "To those who hoard up gold and silver and spend them not in the way of Allah, tell them the tidings of grievous chastisement on the day when it (wealth) will be, heated in the fire of Hell, and their foreheads, their sides and their backs shall be branded with them. Moreover it will be said to them: 'This is what you did hoard (in the world) for yourselves; taste, therefore the fruits of what you hoarded there.'"

Contrary to this, the persons who spend in the ways of God and keep the money in circulation are entitled to Divine blessings. The investment of wealth in useful pursuits and healthy trades does not only bring greater prosperity to oneself but also contributes to the well-being of others. So says the Holy Quran, "The likeness of those who spend their wealth in the ways of Allah is similar to a grain which groweth seven ears and in each ear are a hundred grains. And Allah giveth manifold increase to those. He willeth, for Allah is all encompassing and all knowing. Those who spend their wealth in the cause of Allah, and afterwards make not reproach, their reward is with their Lord and they should not be afraid or aggrieved"

The individual and the community are dependent upon one another. The prosperity of one means the prosperity of the other. Instead of ranging the interests of the individual and community against one another as is found in the economic systems of Communist and Capitalist states, Islam has recognised the interests of both. It has evolved such a healthy economic system that it has to a great extent minimised the conflict between the interests of the individual and that of the community.

The laws of inheritance evolved by Islam further eliminate the possibility of the

accumulation of wealth and property in the hands of a few individuals. Contrary to the Hindu laws of inheritance in which the female members of the family have been denied property rights, Islam ordains the distribution of property among the members of the family both male and female. Apart from ensuring a fair distribution of property among the family members, the Islamic laws of inheritance build a social harmony and maintain an uniformity in the standard of living. It breaks up property into family shares and thus prevents property from becoming the monopoly of a few. Instead of accumulating fortunes, the Islamic laws of inheritance lead to dispersal and distribution.

Islam recognizes one's right of private ownership of wealth, but at the same time enjoins upon the faithful to earn wealth through unquestionable means. The Holy Quran states: "Allah permitted trading and forbade Usury" (11:275). It further states, "Give full measure and be not of those who give and weigh less. Do not deceive the people in matter of their goods" (26: 181-183).

Islamic economic principles control both the production and consumption of wealth. Recognizing one's right of building private fortunes, it stresses that wealth in reality belongs to Allah which has been put in the custody of the individual, hence it should be spent in the ways of Allah which means in healthy pursuits. The Holy Quran states, "The wealth is of Allah which He hath bestowed upon you". (24:33).

In an Islamic Economic system, ample subsistence to the individual is assured and it is for the Creator to provide livelihood to His every creature. The Holy Book states, "Slay not your children, fearing a fall to poverty, We shall provide for them and for you" (17:31). Again, "We have given you power in earth and appointed therein a livelihood. Little give ye thanks". Thus in an Islamic State, the State is to fulfill this guarantee of the Creator by providing subsistence to the poor out of the Zakat Tax.

Interest

Islam forbids both the taking and giving of interest. Modern economists, too, have slowly begun to realize the futility of interest. Keynes suggested the possibility of a zero rate of interest in stationary States, while Harrod advocated its total abolition. A number of modern economists have evolved the maintenance of a banking system without interest. A large number of failures in industrial and commercial enterprises in modern times is due to the high rate of interest charged on the money invested in them. A time comes when the borrower crumbling under heavy interest cannot borrow more money which results in the failure of his enterprise. Hence this institution is responsible for fluctuations in a number of ways. The well-known economist Marshall in his principles of Economics (Book

IV, Chapter XIX) states, "the danger of not being able to renew his borrowings just at the time when he wants them more, puts him (the borrower) at a disadvantage relatively to those who use their own capital much greater than is represented by the mere interest on his borrowing. And the failure of this renewal may cause him to succumb to what would have been a passing misfortune if he had been using no capital, but his own". The depression and crisis in trade mostly results from the payment of high rate of interest. The socialists have wrongly attributed such crises to capitalism. In fact interest is the greatest evil of capitalism and it is rather the worst form of capitalism, The Islamic economy which accepts a form of capitalism without interest has almost eliminated its harmful aspects. The Holy Prophet of Islam has advised Muslims to avoid seven harmful things and the third among these is interest, He stated, 'Although interest brings increase, yet its end tends to scarcity'. The Holy Quran says, "That which ye give in interest in order that it may increase other peoples' wealth hath no increase with God; but that which ye give in growth tax, seeking God's countenance hath increases manifold" (XXX-39).

Even such well-known Economists as Piogu and Fisher have acknowledged the harmful effects of interest in causing commercial fluctuations and industrial crises. Islam favors the formation of joint stock companies and the Arabs were the first to start such companies. Trade partnership was very popular even in the days of the prophet of Islam. He himself had been the business partner of Hazrat Khadija, who later became his wife. Business shares could also be purchased.

Thus the Islamic economic principles if strictly followed would eliminate the possibility of accumulation of wealth in the hands of a few and would ensure the greater circulation of money as well as a wider distribution of wealth. Broadly speaking these principles are (1) Zakat or compulsory alms giving (2) The Islamic law of inheritance which splits the property of an individual into a number of shares given to his relations (3) The forbiddance of interest which checks accumulation of wealth and this strikes at the root of capitalism.

The sound economic system evolved by Islam if given a fair trial would solve the basic economic problems which have been troubling the modern world.